

**Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201**

Department of the Treasury

**Number: 201216044
Release Date: 4/20/2012**

Employer Identification Number:

Contact Person - ID Number:

Date: January 23, 2012

Contact Telephone Number:

LEGEND:

**UIL:
4945.04-04**

C = Number grant recipients
F = Number of Finalists
V = Chief Economist of W
W = Grantor of X
X = Trust (your substantial contributor)
Y = Name of Grant Program
Z = Geographic location
x = Grant range in dollars

Dear :

We have considered your request for advance approval of your grant program under section 4945(g) (3) of the Internal Revenue Code, dated November 2, 2011.

Our records indicate that you are recognized as exempt from federal income tax under section 501(c)(3) of the Code and that you are classified as a private foundation as defined in section 509(a).

Your letter indicates that you will operate a grant program called Y.

Your purpose is to enhance economic opportunity by supporting academic initiatives and activities primarily in the Z that promote research, teaching and learning about financial markets, futures and derivatives.

The purpose of Y is to award grants to eligible college or university professors for the sole purpose of funding academic research about derivative exchange market structure issues, the use of futures and options for hedging and for portfolio management and derivative market depth and liquidity. Some examples of the specific types of research topics of interest include: (1) the use of futures price data to develop enhanced measures of risk; (2) the theory of how exchanges manage counter party risk; and (3) the use of Federal Funds Rate Futures Contract data to study the types of mistakes made by market participants in anticipating Federal policy moves.

As a condition to receipt of the grant, each grant recipient will be required to produce the following documents:

- 1) a scholarly research paper of a quality that renders it capable of being accepted for publication in a high to mid-quality academic journal (the "Scholarly Paper");
- 2) a practical applications paper written in layman terms highlighting the practical implications of the research (the "Practical Applications Paper");
- 3) a PowerPoint or similar set of presentation materials to describe the research suitable for use in research seminars for both scholars and finance practitioners (the "Presentation").

To the extent permitted by applicable copyright laws, you will make the papers and presentation available to the general public with the goal of educating undergraduate and graduate students so that they are better prepared for jobs in the financial services industry.

You will publicize the grant program through your website to all colleges and universities located in the United States and abroad. You will contact over 3,000 professors at numerous colleges and universities to publicize the grant program and request applications from eligible applicants.

You are in the process of developing your application materials and anticipate providing a grant proposal template on your website to individual applicants and all college and universities within the United States and abroad. There is no required application format, but each application must include the name of the person doing the research, any affiliated institutions, a description of the research, a budget with sufficient detail to understand how the money will be spent, a time line for completion, and the resumes of the researcher(s). The application must agree to provide the required deliverables.

In order to be eligible for consideration for a grant, an applicant must submit the following documents to you:

- 1) an application;
- 2) a description of the proposed research project;
- 3) curriculum vitae; and
- 4) budget for the proposed research project.

The following persons are not eligible to apply for or to receive a grant:

- 1) Members of the peer review committee (described below) and their "family members" as defined in Section 4946(d) of the Code;
- 2) Your directors and officers and their "family members" as defined in Section 4946(d) of the Code;
- 3) Trustees of X and their "family members" as defined in Section 4946(d) of the Code; and
- 4) Officers and employees of W and their "family members" as defined in Section 4946(d) of the Code.

Your board of directors will create a peer review committee composed of up to five (5) individual scholars who have produced research in the areas of financial markets, futures and derivatives, including scholars from the United States and abroad. The members of the peer review committee will be individuals who are well-respected in their profession and who have a record of linking theory to empirical work to practical applications. It is anticipated that the Chief Economist of W (currently, V) will be a member and serve as chairman of the peer review

committee. The Chief Economist of W may serve as the sole member until scholars have been named to the peer review committee and in the event that no other scholars are active members of the peer review committee. Your board will have the power to name, remove and replace members of the peer review committee, and impose further requirements on members of the peer review committee.

Your board will have the discretion to provide compensation to the members of the peer review committee after due consideration of the amount of work required by the members of the peer review committee, the number of grants reviewed by the peer review committee, the average grant award and the compensation provided to members of comparable panels. No compensation will be awarded by you to any of the following persons for serving as members of the peer review committee:

- (1) Your directors and officers and their "family members" as defined in Section 4946(d) of the Code;
- (2) Trustees of X and their "family members" as defined in Section 4946(d) of the Code; and
- (3) Officers and employees of W and their "family members" as defined in Section 4946(d) of the Code.

The peer review committee will review the grant applications and supporting documents and narrow them down to a list of up to F finalists based on your budget for such awards, the number of grant applications, the research capabilities of the applicant, whether the proposed research topic is consistent with your mission and goals, and the respective merits of the proposed research topics. The board of directors will then review the list of finalists recommended by the peer review committee, as well as the qualified applications and supporting documents of such finalists, before selecting up to C recipients who will be awarded grants. You will then enter into a written grant agreement with each grant recipient.

The number and amount of grants made annually will be determined in the discretion of the Board of Directors based on your available funds, your budget for such awards, the number of qualified applicants, the budgeted cost for each research project, the amounts of any competing awards and the number of promising applicants selected as finalists. You anticipate that you will award up to C grants in the estimated amounts of \$x each. The grant funds will be paid directly to the recipient. The grant is not renewable but the recipient may apply for a new project in subsequent years.

Pursuant to the terms of the grant agreement, one-half of the total grant amount will be paid to each recipient at the time he or she is selected. The remaining one-half of the total grant amount will be paid to each recipient upon delivery of the following documents to you:

- (1) the Scholarly Paper;
- (2) the Practical Applications Paper; and
- (3) the Presentation

Each grant recipient will be encouraged to submit his or her Scholarly Paper to a mid-to-high quality scholarly journal for publication and use his or her best efforts to have the Scholarly Paper published. To the extent permitted by applicable

copyright laws, you will post the Scholarly Papers on your website to make such articles available to the general public free of charge.

You will publish all of the Practical Applications Papers and Presentations in your Annual Research Volume, which you intend to publish in hard copy and on your website. The Annual Research Volume will be free to the general public.

Pursuant to the terms of the grant agreement with each grant recipient, you will have the right to monitor and conduct an evaluation of the research activities of each grant recipient. This may include a personal visit by you to the grant recipient, a discussion of the progress made on the research activities and your right to review financial and other records connected to the research activities. Upon completion of the research project, each grant recipient will be required to provide you with a final financial report showing the actual use of the grant funds.

You represented that you will:

- (1) arrange to receive and review grantee reports annually and upon completion of the purpose for which the grant was awarded,
- (2) investigate diversion of funds from their intended purposes, and
- (3) take all reasonable and appropriate steps to recover diverted funds, ensure other grant funds held by a grantee are used for their intended purposes, and withhold further payments to grantees until you obtain grantees' assurances that future diversions will not occur and that grantees will take extraordinary precautions to prevent future diversions from occurring.

You also represented that you will maintain all records relating to individual grants, including information obtained to evaluate grantees, identify whether a grantee is a disqualified person, establish the amount and purpose of each grant, and establish that you undertook the supervision and investigation of grants.

Sections 4945(a) and (b) of the Code impose certain excise taxes on "taxable expenditures" made by a private foundation.

Section 4945(d)(3) of the Code provides that the term "taxable expenditure" means any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purposes by such individual, unless such grant satisfies the requirements of subsection (g).

Section 4945(g) of the Code provides that section 4945(d)(3) shall not apply to individual grants awarded on an objective and nondiscriminatory basis pursuant to a procedure approved in advance if it is demonstrated that:

- (1) The grant constitutes a scholarship or fellowship grant which is subject to the provisions of section 117(a) and is to be used for study at an educational organization described in section 170(b)(1)(A)(ii);
- (2) The grant constitutes a prize or award which is subject to the provisions of section 74(b), if the recipient of such prize or award is selected from the general public, or

- (3) The purpose of the grant is to achieve a specific objective, produce a report or similar product, or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar capacity, skill, or talent of the grantee.

Section 53.4945-4(c)(1) of the Regulations provides that to secure approval, a private foundation must demonstrate that:

- (i) Its grant procedure includes an objective and nondiscriminatory selection process;
- (ii) Such procedure is reasonably calculated to result in performance by grantees of the activities that the grants are intended to finance; and
- (iii) The foundation plans to obtain reports to determine whether the grantees performed activities that the grants are intended to finance.

Revenue Ruling 77-434, 1977-2 C.B. 420 provides that long-term loans by private foundations for educational purposes may be considered grants within the meaning of IRC 4945(g)(3).

Based on the information submitted and assuming your grant program will be conducted as proposed with objectivity and nondiscrimination in making grants, we determined that your procedures in awarding of educational grants comply with the requirements of section 4945(g)(3) of the Code, and that grants granted according to these procedures will not be "taxable expenditures" within the meaning of section 4945(d)(3).

This determination is conditioned on the understanding that there will be no material change in the facts upon which it is based. It is further conditioned on the premise that no grants will be awarded to foundation managers, or members of the selection committee, or for a purpose that is inconsistent with the purpose described in section 170(c)(2)(B) of the Code

The approval of your educational grant procedures is a one-time approval of your system standards and procedures that will result in grants which meet the requirements of section 4945(g)(3) of the Code. This determination only covers the grant programs described above. Thus, approval shall apply to subsequent grant programs only as long as the standards and procedures under which they are conducted do not differ materially from those described in your request.

Any funds you distribute to individuals must be made on a true charitable basis in furtherance of the purposes for which you are organized. Therefore, you should maintain adequate records and case histories so that any or all grant and loan distributions can be substantiated upon request by the Internal Revenue Service.

This determination is directed only to the organization that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited as a precedent.

You must report any future changes in your grant making procedures. Please keep a copy of this letter in your permanent records.

We have sent a copy of this letter to your representatives as indicated in your power of attorney.

If you have any questions, please contact the person whose name and telephone number are shown above.

Sincerely yours,

Lois G. Lerner
Director, Exempt Organizations

Enclosures: Notice 437
Redacted copy of Approval Letter